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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF OF PETITIONER

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	ii
REPLY BRIEF OF PETITIONER	1
CONCLUSION	10

TABLE OF AUTHORITIES

CASES Page

Amoco Prod. Co. v. *Vill. of Gambell, Alaska*, 480 U.S. 531 (1987) 2, 6
Burndy Corp. v. *Teledyne Indus., Inc.*, 748 F.2d 767 (2d Cir. 1984) 8
Cont'l Paper Bag Co. v. *E. Paper Bag Co.*, 210 U.S. 405 (1908) 1, 3, 4
Crown Die & Tool Co. v. *Nye Tool & Mach. Works*, 261 U.S. 24 (1923) 4
Foster v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) 3, 8
Haig v. *Agee*, 453 U.S. 280 (1981) 7
Hecht Co. v. *Bowles*, 321 U.S. 321 (1944) 2, 6
Mallinckrodt, Inc. v. *Masimo Corp.*, 2005 WL 2139867 (Fed. Cir. Sept. 7, 2005) 5
N.Y. Times Co. v. *Tasini*, 533 U.S. 483 (2001) 7
Nerney v. *N.Y., New Haven & Hartford R.R.*, 83 F.2d 409 (2d Cir. 1936) 3
People of Vill. of Gambell v. *Hodel*, 774 F.2d 1414 (9th Cir. 1985), *rev'd in part, vacated in part*, 480 U.S. 531 (1987) 6
Roche Prods., Inc. v. *Bolar Pharm. Co.*, 733 F.2d 858 (Fed. Cir. 1984), *superceded on other grounds*, 35 U.S.C. § 217(e), *as recognized in W.L. Gore & Assocs.* v. *C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992) 5
Silverstein v. *Penguin Putnam, Inc.*, 368 F.3d 77 (2d Cir.), *cert. denied*, 125 S. Ct. 815 (2004) 7
Smith Int'l, Inc. v. *Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir. 1983) 4, 5
Standard Havens Prods., Inc. v. *Gencor Indus., Inc.*, 953 F.2d 1360 (Fed. Cir. 1991) 10
United States v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483 (2001) 2, 6

TABLE OF AUTHORITIES—continued

Page

Weinberger v. *Romero-Barcelo*, 456 U.S. 305 (1982) 2, 4, 6, 8
Zenith Radio Corp. v. *Hazeltine Research*, 395 U.S. 100 (1969) 4

FEDERAL STATUTES

Act of Feb. 15, 1819, ch. 19, 3 Stat. 481 3
15 U.S.C. § 1116(a) 7
17 U.S.C. § 502 7
35 U.S.C. § 283 ..... 1, 3
§ 307(a) 10

LEGISLATIVE HISTORY

Legislative Hearing on the "Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005,'" before the Subcomm. on Courts, the Internet, & Intellectual Prop. of the H. Comm. on the Judiciary, 109th Cong. (2005), *available at* http://judiciary.house.gov/media/pdfs/thomas091505.pdf 10

SCHOLARLY AUTHORITY

20 Charles A. Wright & Mary K. Kane, *Federal Practice and Procedure* (2002) 8

REPLY BRIEF OF PETITIONER

In their petition, eBay Inc. and Half.com, Inc. ("eBay") have demonstrated that the Federal Circuit's holding in this case sets out, with a minor exception for public health risks, an irrebuttable presumption that a permanent injunction should follow a finding of patent infringement. This restriction on the traditional equitable powers of a district court flouts both the plain language of the Patent Act, 35 U.S.C. § 283, and this Court's unmistakable instruction that only Congress, and not a court of appeals, can limit the equitable discretion of the lower courts. In believing that the Federal Circuit's error of law presents an exceptionally strong case for this Court's review, eBay is joined by numerous *amici*, including the nation's leading intellectual property professors and a host of affected companies in the technology, manufacturing, energy, and financial services sectors. Those submissions alone warrant this Court's review of the important holding below in this case.

The opposition briefs filed by Respondent MercExchange, L.L.C. ("MercExchange") and its *amici* do not offer a single reason to doubt the need for this Court's review. First, there is no merit to MercExchange's contention that *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), decided the issue presented. That decision merely holds what eBay has never denied: that a patent offers a right to exclude and that the traditional remedy for the prevention of future patent infringement is an injunction. But, the question presented by this petition pertains not to whether a post-infringement injunction is ever appropriate—it typically is—but whether, as the Federal Circuit has commanded, an injunction must follow automatically without consideration of the traditional prerequisites for the grant of equitable relief. None of the cases cited by MercExchange, including *Continental Paper Bag*, justifies the Federal Circuit's rule that departs from the language of the statute.

Second, MercExchange contends that the Federal Circuit leaves district courts with the discretion required by § 283 because it permits denying permanent injunctions in exceptional circumstances. But, as this Court has held, tolerating the denial of injunctive relief only in such "rare instances" would render "discretion" a meaningless concept. App. 26a; *Amoco Prod. Co.* v. *Vill. of Gambell, Alaska*, 480 U.S. 531, 544 (1987).

Third, eBay's petition identified a series of this Court's decisions admonishing courts of appeals not to limit equitable discretion absent clear Congressional intent. Pet. 19-22; *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001); *Amoco Prod.*, 480 U.S. at 544; *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311-13 (1982); *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329-30 (1944). MercExchange contends that these decisions have no force with respect to property rights such as patents. This view is mistaken. This Court and various other courts of appeals have interpreted similar intellectual property statutes as barring precisely the *per se* approach the Federal Circuit has adopted with respect to patents.

Fourth, MercExchange argues that disturbing the Federal Circuit's rule will have disastrous consequences for the patent system. This argument rests on the fiction that eBay seeks to deny patentees access to injunctive relief. Ultimately, however, eBay, along with numerous *amici* supporting the petition, have shown that dismantling the Federal Circuit's automatic rule will strengthen the patent system and the nation's economy.

Given the Federal Circuit's exclusive jurisdiction over patent disputes, this Court's review is necessary to correct this misconstruction of the Patent Act and its unwarranted limitation on equity.

1. MercExchange, along with its *amici*, which apparently recognize the importance of the issue, argue that *Continental Paper Bag* justifies the Federal Circuit's special rule for

patent injunctions. Opp. 8, 16-19; Qualcomm Br. 7. MercExchange and its *amici*, however, read far too much into the following language:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

Cont'l Paper Bag, 210 U.S. at 430.

In *Continental Paper Bag*, the petitioner sought to deny injunctive relief to patentees on the theory that they were unreasonably refusing to allow their inventions to be used. In rejecting this argument, this Court noted that patentees, including those that did not practice their inventions, enjoyed not only a "right to exclude" others from use of the invention, but also they had available to them the injunctive powers of the equity courts to safeguard that right. *Id.* at 425.

Yet, the right to exclude that inheres in a patent does not justify a mandatory injunction rule.[1] Patent holders enjoyed their right to exclude for nearly 30 years before Congress added an injunctive relief provision to the Patent Act. Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481-82. In doing so, Congress readily could have chosen to make injunctive relief mandatory. Congress instead chose to attach the condition that injunctions should issue only "according to the course and principles of courts of equity." *Id.* at 481; see also 35 U.S.C. § 283 ("in accordance with the principles of equity").

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[1] MercExchange's reliance on the right to exclude is ironic given the district court's factual finding that MercExchange clearly expressed its intention not to exclude, but to license its patent for a fee. App. 54a. When "it is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue." *Nerney* v. *N.Y., New Haven & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936); *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

Thus, all that *Continental Paper Bag* holds is that injunctive relief is a critical means by which a patentee can protect its right to exclude.

But the decision also strongly suggests that, consistent with § 283, courts must consider the ordinary rules of equity before granting an injunction. In the very same passage relied upon by MercExchange and its *amici*, this Court tied the availability of a patent injunction to the "well-recognized grounds of equity jurisdiction," which included such grounds as multiple "trespasses and continuing wrongs and the vexation of many actions." *Cont'l Paper Bag*, 210 U.S. at 430. Further, the Court observed that, while an injunction could not be categorically denied to non-using patentees, "[w]hether, however, a case cannot arise where, *regarding the situation of the parties in view of the public interest*, a court of equity might be justified in withholding relief by injunction we do not decide." *Id.* (emphasis added). This formulation directs courts to consider *both* the interests of parties and the public and sums up the traditional four-factor test for equitable relief: irreparable injury; inadequacy of legal remedies; balancing of parties' hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13. By contrast, the Federal Circuit's rule mandates an injunction, irrespective of the situation of the parties, and permits an exception only "'in order to protect the public interest.'" App. 26a.

Accordingly, *Continental Paper Bag* hardly creates a wooden presumption in favor of injunctions, much less an irrebuttable one.[2]

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[2] Nor do this Court's decisions support MercExchange's wishful reading. In both *Zenith Radio Corp.* v. *Hazeltine Research*, 395 U.S. 100, 135 (1969), and *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923), this Court only cited *Continental Paper Bag* for the uncontroversial holding that a patent confers a legal monopoly with a right to exclude others from making or using the invention. This Court has never suggested that there is a mandatory rule for injunctions. Moreover, in *Smith International, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir.

2. MercExchange concedes that § 283 vests discretion in district courts to grant injunctive relief according to equitable principles. Opp. 21 n.9. However, it contends that the Federal Circuit already provides that discretion to the district courts. *Id.* at 8-9. But, the Federal Circuit's narrow exception to its *per se* rule, where a court can deny an injunction that would adversely affect the public interest, is not a meaningful exercise of equitable discretion.

At the outset, MercExchange's view that the Federal Circuit's mandatory injunction rule has been "consistently recognized" by that court is flatly wrong. *Id.* at 19. In its early days, the Federal Circuit held that injunctions should only issue according to "historic equity principles." *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 867 (Fed. Cir. 1984), *superseded on other grounds by statute*, 35 U.S.C. § 271(e), *as recognized in W.L. Gore & Assocs.* v. *C.R. Bard, Inc.*, 977 F.2d 558 (Fed. Cir. 1992). The court based its conclusion on the nonmandatory language of § 283 and this Court's admonition against curbing equitable discretion absent a clear textual warrant. *Id.* at 865-66 (citing *Hecht*, 321 U.S. at 321). Over the years, however, the Federal Circuit's doctrine on patent injunctions has evolved into an unyielding rule, unmoored from the text and decisions of this Court. Now, "'the general rule is that a permanent injunction will issue once infringement and validity have been adjudged'" except when denying an injunction is necessary to protect the public interest. See, *e.g.*, *Mallinckrodt, Inc.* v. *Masimo Corp.*, 2005 WL 2139867, at *17 (Fed. Cir. Sept. 7, 2005) (reversing a district court's denial of a permanent injunction and citing *MercExchange, L.L.C.* v. *eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)).

1983), the Federal Circuit cited to *Continental Paper Bag* with respect to injunctive relief, and yet expressly instructed district courts to employ traditional equitable analysis before issuing an injunction. *Id.* at 1579 (noting that "the trial court should balance the requisite [equitable] factors.").

MercExchange attempts to characterize the narrow "public interest" exception to the Federal Circuit's *per se* rule as embodying the exercise of equitable discretion. Opp. 8-9, 19-23. MercExchange is wrong. Indeed, this Court has struck down a strikingly similar rule as an undue restriction on a court's equitable discretion. The Ninth Circuit had held that "injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances." *People of Vill. of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985). The exception for "rare or unusual circumstances" did not prevent this Court from rejecting the court of appeals' rule as an unwarranted limitation on a federal court's traditional equitable discretion. *Amoco Prod.*, 480 U.S. at 541. Likewise, here, the "public interest" exception, which the Federal Circuit has itself described as "rare," is a plainly insufficient substitute for equitable discretion. App. 26a ("'courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest'"). The Federal Circuit has therefore restricted the courts' equitable discretion in stark violation of this Court's precedents. *Oakland Cannabis*, 532 U.S. at 496; *Romero-Barcelo*, 456 U.S. at 305; *Hecht Co.*, 321 U.S. at 321.

3. MercExchange's attempts to avoid the effect of these decisions should be rejected. First, MercExchange states that eBay has cited to these cases "for the unremarkable proposition that Congress may legislate remedial schemes that permit courts to exercise equitable discretion." Opp. 21 n.9. That is not the holding of these cases and that is not what eBay argued. As discussed in the petition, these decisions hold that a court of appeals cannot limit the equitable discretion of a federal court in favor of a *per se* rule, absent a Congressional mandate. Those cases are on point and undermine the Federal Circuit's rule.

Second, MercExchange contends that those cases "dealt only with statutes addressed to policies of general public concern, not a personal property right." *Id.* at 22 n.9. This is

a meaningless distinction. Copyrights, which like patents confer a property right—including the right to exclude—are subject to a similarly worded injunctive relief provision. 17 U.S.C. § 502 (a court "may" enjoin infringement). And, in contrast to the Federal Circuit's misreading of § 283, this Court has interpreted this discretionary language in the Copyright Act to mean that injunctive relief need not issue as a matter of course after a finding of a violation. *N.Y. Times Co.* v. *Tasini*, 533 U.S. 483, 505 (2001) (citing *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, n.10 (1994)).[3]

In addition to the Copyright Act, the Lanham Act also contains an injunctive relief provision for trademark violations that echoes the language contained in § 283. 15 U.S.C. § 1116(a) ("power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable"). Various courts of appeals have interpreted both of these analogous intellectual property provisions to vest a district court with equitable discretion. Injunctions, these courts have held, are not the automatic result of infringement; instead, the relief is conditioned upon a thorough consideration of the traditional equitable factors, including continuing infringement.[4] See *Silverstein* v. *Penguin*

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[3] MercExchange's attempt to torture the plain language of § 283 should likewise be rejected. MercExchange contends that the Congress' use of "may" in § 283, as opposed to "shall," means something different in the context of the Patent Act because a patent involves the "right to exclude." Opp. 22 n.9. Tellingly, MercExchange adverts to no cases that support its newly minted canon of construction. This Court certainly has not created a property law exception to the ordinary rule of statutory interpretation that "'may' expressly recognizes substantial discretion." *Haig* v. *Agee*, 453 U.S. 280, 295 n.26 (1981).

[4] MercExchange acknowledges that the Federal Circuit's rule differs from these cases, including the absence of a continuing infringement requirement. But it contends that this distinction is "wholly irrelevant to this case" because it alleges Petitioners have "continued their willful infringement unabated since trial." Opp. 26. eBay denies this unsupported allegation. Moreover, MercExchange cannot make up for the lapse in the Federal Circuit's general rule by having this Court make a factual

Putnam, Inc., 368 F.3d 77, 84 (2d Cir.) (denying injunctive relief and holding that under the Copyright Act § 502 "injunctive relief to enforce a copyright is not compelled"), *cert. denied*, 125 S. Ct. 815 (2004); *Burndy Corp.* v. *Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984) (permanent injunctions will be granted "only upon proof of the likelihood that purchasers of the product may be misled in the future") (Lanham Act). These decisions not only conflict in principle with the decision announced below, they indicate that but for the Federal Circuit's exclusive jurisdiction to hear patent appeals, a patent defendant would not labor under such a mandatory injunction rule. See *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) (the Second Circuit interpreting § 283 to hold that "[a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined under the circumstances.").

MercExchange tries to minimize the import of these cases by noting that "courts typically provide permanent injunctive relief in trademark and copyright cases upon a finding of infringement, just as in patent cases." Opp. 24. This assertion may be true, but it is beside the point.

eBay readily concedes that if the Federal Circuit's rule were lifted, the traditional prerequisites for injunctive relief would often be met. Pet. 26. But there clearly are instances, such as this case, when the *per se* rule would dictate that an injunction should issue, even when the equities of a particular case counsel otherwise. Here, after carefully weighing the facts and noting the "atypical" and "highly unusual" nature of this case, the district court correctly declined to grant an injunction. App. 52-59a. The district court thus was faithful to the letter and the spirit of § 283. This is because in obligating courts to employ equitable principles, Congress demanded

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finding based on its bald assertion. Axiomatically, "[t]he Supreme Court ordinarily does not sit to decide questions of fact." 20 Charles A. Wright & Mary K. Kane, *Federal Practice and Procedure* § 115, at 1083 (2002).

case-specific consideration. *Romero-Barcelo*, 456 U.S. at 312 ("[t]he essence of equity jurisdiction has been the power ... to mould each decree to the necessities of the particular case.").

4. In its petition, eBay explained why the Federal Circuit's *per se* rule imposes tremendous costs to the Nation's economy. That view has now been echoed by numerous *amici* who have written in support of certiorari. However, MercExchange asserts that disturbing the Federal Circuit's general rule would lead to calamitous results. But it arrives at this conclusion by arguing against a petition of its own invention: one which seeks categorically to deny injunctions to patentees; to establish a compulsory licensing system; and, to eliminate a patentee's right to exclude others from use of the patent. Opp. 5, 28-29.

eBay's petition, neither expressly nor impliedly, seeks these changes to the patent system. Nor would eBay and its several *amici*, as holders of valuable patents, seek to undermine patent protection. Rather, eBay has sought this Court's review of the Federal Circuit's misconstruction of § 283. Reclaiming the role of equitable discretion in patent injunctions would undoubtedly benefit the significantly expanding patent system, and would aid district courts as they confront the challenges posed by ill-defined patents and claims brought by patent assertion companies. The sky would assuredly not fall on patentees.

In any event, both MercExchange and eBay argue on this common ground: the debate over the proper rule concerning the grant of patent injunctions implicates vital aspects of the patent system. Thus, this Court should grant review to settle this question of exceptional importance to the nation's economy that prompted *amici* on both sides to expend valuable resources in briefing the issue in this case.

5. Finally, *amici* in support of MercExchange advance two arguments that can be easily dismissed. First, they argue that this Court should refrain from reviewing this case because

"th[is] issue is actively under consideration by the Legislative Branch." Qualcomm Br. 12. This is false. Congress is considering changes to the patent system, but the pending legislative proposal does not implicate the injunctive relief provision of the Patent Act. *Legislative Hearing on the "Amendment in the Nature of a Substitute to H.R. 2795, the 'Patent Act of 2005,'" before the Subcomm. on Courts, the Internet, & Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005) (statement of John R. Thomas, Georgetown University), *available at* http://judiciary.house.gov/media/pdfs/thomas091505.pdf, at 5. The changes contemplated by the various subcommittees will have no affect on this litigation.

Second, *amici* on behalf of MercExchange argue that the Patent and Trademark Office's reexamination proceedings serve as a basis for denying this petition. But *amici* themselves acknowledge that "the administrative proceedings have not reached the stage of a final determination of invalidity." Qualcomm Br. 13. Arriving at this final stage is a lengthy process. As noted in eBay's petition, a determination by the PTO during reexamination will not be a final adjudication on patent validity until any appeal, to the Federal Circuit directly or to the United States District Court for the District of Columbia, has been concluded. 35 U.S.C. § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991). Thus, not only is the result of the reexamination uncertain, the determination will only have effect sometime in the future. In the meantime, absent review and reversal by this Court, eBay will be subject to an unfair and unwise injunction that does violence to the plain language of Section 283.

CONCLUSION

For the foregoing reasons, and for the reasons stated in the petition for certiorari, the petition should be granted.

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